

CIRCULATING COPY

Rate Yourself As a Credit Risk

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CREDIT RATING

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CIRCULATING COPY
AGRICULTURE LIBRARY
UNIVERSITY OF ILLINOIS



UNIVERSITY OF ILLINOIS
COLLEGE OF AGRICULTURE
EXTENSION SERVICE IN AGRICULTURE
AND HOME ECONOMICS

CIRCULAR 769

DO YOU NEED TO ESTABLISH A LINE OF CREDIT?

THE OPERATING CAPITAL needed for modern farming is greater than ever before. As a result, many Illinois families are finding that borrowing is necessary if they want to farm profitably.

If you have already established a line of dependable credit that will meet your needs from year to year, borrowing is usually a simple routine procedure. You just call on your established lender, tell him how much you need and for how long, perhaps outline income sources from which you plan to repay the loan, sign a note — and the transaction is completed.

But if you have not established such a line of credit, borrowing is more complicated. You must convince some lender that you have a sound basis for credit and that you have the

required security. You must also show that, with a loan, your farming program and management ability will increase your income enough to meet interest and principal payments when they are due. In short, *you must prove that you are a good credit risk.*

The lender will want to know a number of things about you, your family, and your farming program. The following questions will give you an idea of the kind of information that many lenders use in making loan decisions. To find out how well you measure up as a credit risk, check each question "Yes" or "No." If you must in all conscience check very many of the questions "No," you may find it somewhat embarrassing to answer some of the questions a prospective lender might ask you.

NOW RATE YOURSELF

The Farm Family (most important)

- | | Yes | No |
|---|--------------------------|--------------------------|
| 1. Can we show that with the proposed loan we will earn enough extra profit to meet principal and interest payments?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does every family member take part in making decisions and assist in farming operations according to his ability?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Do we keep well informed on new and improved farm practices that will increase farm earnings?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Are we careful managers — do we take good care of household equipment, machinery, and livestock?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Do we make it a practice to pay our bills promptly?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. If we are ever unable to pay, do we promptly explain our situation to our lender and tell him just what we can do?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Do we try to get most of our credit from one source, so that we will not jeopardize our main line of credit for farm-production purposes?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Do we have leeway to cut our expenses when necessary without reducing income too seriously?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Do we welcome suggestions from our lender about our business and financial affairs?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Do we maintain a reserve (cash and liquid assets) large enough to meet minor emergencies, so that we won't have to ask our | | |

- | | Yes | No |
|---|--------------------------|--------------------------|
| lender for concessions each time such an emergency arises?..... | <input type="checkbox"/> | <input type="checkbox"/> |

The Land and Farming Plan

- | | | |
|--|--------------------------|--------------------------|
| 1. Have we developed a long-time program for our farm, and do we develop a farm plan for each year?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Is our farming unit (acreage and livestock program) large enough to carry a loan as well as provide income for the standard of living we want?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Do we have the farm power, labor, machinery, tools, and equipment needed to farm for maximum profit?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Is our farm program such that we can plan to sell our crops and livestock to the best advantage — can we, for example, sell our livestock when it is properly finished and the market offers promise of highest returns?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Can we readily adjust our farming program to meet emergency situations and shift from operations that are losing propositions?.... | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. If we are renting, do we have a clear understanding with our landlord on the equitable sharing of the cost of fertilizers, insecticides, and other items that will increase earnings for both owner and operator?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Do we use a cropping system that will conserve the soil and increase earnings?..... | <input type="checkbox"/> | <input type="checkbox"/> |

8. Do we apply fertilizers and limestone on the basis of soil tests and yield checks?.... ☐ ☐
9. Will we have money left for needed farm and home improvements after meeting living expenses and loan payments?..... ☐ ☐

Farm Records

1. Do we keep a good set of records?..... ☐ ☐
2. Do our records show how much money we made or lost on each separate part of our farming operations? ☐ ☐
3. Are our records in such form that we may readily show net earnings from farming operations the past several years?..... ☐ ☐
4. Will our records provide information needed to prepare a financial statement (assets, liabilities, and net worth)?..... ☐ ☐

The Loan

1. Will the money we propose to borrow increase our net income?..... ☐ ☐
2. Do we avoid borrowing on short-term notes when longer terms would be better geared to expected income?..... ☐ ☐
3. Do we plan for our credit needs over the entire year?..... ☐ ☐

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URBANA, ILLINOIS

MARCH, 1957

Cooperative Extension Work in Agriculture and Home Economics: University of Illinois, College of Agriculture, and the United States Department of Agriculture cooperating. LOUIS B. HOWARD, Director. Acts approved by Congress May 8 and June 30, 1914.